

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 PM-03 SP-02

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 2183

INFO AMEMBASSY BONN

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY TOKYO

C O N F I D E N T I A L LISBON 5432

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, PO, JA, CA, FR

SUBJECT: CURRENT FINANCIAL CRISIS; FINANCIAL ASSISTANCE
FOR PORTUGAL

REF: (A) TOKYO 10424 (NOTAL) (B) OTTAWA 4069 (NOTAL)
(C) LISBON 5271 (NOTAL)

1. CENTRAL BANK GOVERNOR SILVA LOPES CALLED ME TODAY TO PROVIDE UPDATE ON CURRENT FINANCIAL CRISIS. HE SAID THE BIS HAD CONFIRMED LOAN OF \$100 MILLION, WHICH GOVE THE GOP SOME ADDITIONAL BREATHING SPACE. THE IMF REPRESENTATIVE WOULD ARRIVE ON TUESDAY AND GOP WOULD ENTER IMMEDIATELY INTO DISCUSSIONS WITH HIM.

2. SILVA LOPES SAID THE CENTRAL BANK WOULD NOT COMPLETE ITS ANALYSIS OF THE CURRENT FOREIGN EXCHANGE CRISIS UNTIL NEXT WEEK. THEIR PRELIMINARY ASSESSMENT WAS THAT THE PROBLEM STEMMED MORE FROM THE REPAYMENT OF EXISTING DEBTS THAN FROM
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A FLIGHT OF SPECULATIVE CAPITAL. THIS, HOWEVER, WAS NOT AN OPTIMISTIC PROGNOSIS SINCE THE REPAYMENT PROBLEM WAS LIKELY TO CONTINUE.

3. SILVA LOPES SAID THE GOP WOULD BE SENDING INSTRUCTIONS TO ITS AMBASSADORS IN COUNTRIES PARTICIPATING IN THE INTERNATIONAL LENDING OPERATION TO URGE THAT HOST GOVERN-

MENTS INITIATE NEGOTIATIONS ON THEIR LOANS AS SOON AS POSSIBLE. (STATE 163429 ARRIVED JUST AFTER THIS CONVERSATION). AMBASSADORS TO SELECTED COUNTRIES WOULD ALSO RECEIVE INSTRUCTIONS TO URGE THAT HOST GOVERNMENTS UNTIE THEIR LOANS. IN THIS CONNECTION HE ASKED ABOUT JAPAN, AND I TOLD HIM THE USG HAD MADE ANOTHER APPROACH TO THE JAPANESE AND IT APPEARED WE HAD REACHED THE LIMITS OF JAPANESE FLEXIBILITY (REFTEL A).

4. SILVA LOPES OPINED THAT FRANCE WAS EXTRACTING MAXIMUM POLITICAL CAPITAL FROM THE MULTILATERAL LENDING PROGRAM WITHOUT MAKING ANY REAL CONTRIBUTION. GOP PLANNED TO PUT ADDITIONAL PRESSURE ON FRENCH. AFTER ALL EVEN ROMANIA HAD OFFERED PORTUGAL EXPORT CREDITS. FRANCE AS A CLOSE NEIGHBOR AND ALLY SHOULD DO MORE.

5. WE DISCUSSED CANADIAN CONTRIBUTION AND I INFORMED HIM THAT CANADA'S CONTRIBUTION, ALTHOUGH TIED TO WHEAT, WOULD BE A GRANT (REFTEL B). SILVA LOPES SAID THE FACT THAT IT WAS A GRANT ALTERED SITUATION CONSIDERABLY. A GRANT TIED TO WHEAT WAS VERY DIFFERENT FROM CREDITS TIED TO EQUIPMENT. SINCE I HAD NOT MENTIONED GRANT ASPECT OF CANADIAN CONTRIBUTION IN MY TALK WITH FINANCE MINISTER REPORTED LISBON 5288 I ASSUME SILVA LOPES COMMENTS MEAN GOP IS LIKELY TO CHANGE ITS VIEW.

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6. I TOLD SILVA LOPES THAT PURSUANT TO MY CONVERSATION WITH PRIME MINISTER (REFTEL C) USG DID NOT PLAN ANY SPECIFIC RESPONSE TO THEIR REQUEST UNTIL GOP HAD MADE FULL ANALYSIS OF CAUSES OF CRISIS AND HAD DETERMINED WHAT MEASURES IT INTENDED TO TAKE. SILVA LOPES SAID GOP UNDERSTOOD USG POSITION.
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